

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name MBS International Airport Commission	County Saginaw
Fiscal Year End 12/31/07	Opinion Date 3/18/08	Date Audit Report Submitted to State	

We affirm that:

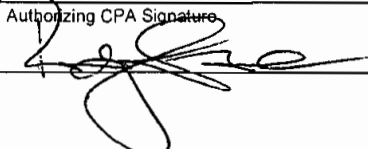
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - N/A The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - N/A The local unit has adopted a budget for all required funds.
  - N/A A public hearing on the budget was held in accordance with State statute.
  - N/A The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - N/A The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - N/A The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Passenger Facility Charge	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Andrews Hooper & Pavlik PLC		Telephone Number 989-497-5300	
Street Address 5300 Gratiot		City Saginaw	State MI
		Zip 48638	
Authorizing CPA Signature 		Printed Name Randy Morse	License Number 1101022148

Audited Financial Statements  
and Other Financial Information

MBS International  
Airport Commission

*Years ended December 31, 2007 and 2006  
with Report of Independent Auditors*

MBS International Airport Commission

Audited Financial Statements  
and Other Financial Information

Years ended December 31, 2007 and 2006

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**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

Report of Independent Auditors

Board of Commissioners  
MBS International Airport Commission

We have audited the accompanying statements of net assets of MBS International Airport Commission (Commission) as of December 31, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MBS International Airport Commission as of December 31, 2007 and 2006, and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2008 on our consideration of MBS International Airport Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. The supplementary information is the responsibility of the Commission's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Andrews Hooper & Pavlik P.L.C.*

Saginaw, Michigan  
March 18, 2008

# MBS International Airport Commission

## Management's Discussion and Analysis

### INTRODUCTION

This section of the MBS International Airport Commission (Commission or MBS) annual audit presents an analysis of the Commission's financial performance during the fiscal year ended December 31, 2007. This information is presented in conjunction with the audited financial statements, which follow. The annual report consists of the following three parts: Management's Discussion and Analysis (MD&A); Basic Financial Statements; and other Supplementary Information. The financial statements include notes which explain in detail some of the information included in the basic financial statements. The information contained in this MD&A should be considered in conjunction with the information contained in the Commission's financial statements.

### AIRPORT ACTIVITY HIGHLIGHTS

The airline industry saw some slight improvements early in 2007. Delta and Northwest both emerged from bankruptcy protection after shedding billions of dollars in annual costs. What little good news there was quickly evaporated as the year went on. Northwest's post-bankruptcy operating plan was based on oil being priced between \$60 and \$70 per barrel. Toward the end of 2007, oil was near \$100 per barrel which quickly eroded the annual cost savings the airlines had experienced earlier in the year. Throughout 2007, the airlines continued to consolidate their flight schedules and shrink domestic capacity. This was done in an attempt to gain every possible dollar of revenue in each and every flight. Finally, airline mergers continued to dominate the news in the latter half of 2007. This uncertainty helps keep the entire industry in question.

MBS passenger traffic in 2007 was 348,281 total passengers compared to 382,140 total passengers in 2006 and 408,546 in 2005. The 2007 budget was prepared using conservative estimates for airline passenger traffic. This was based on the following reasons: the ongoing Northwest Airline bankruptcy, reduction of capacity by Northwest Airlines, uncertainty surrounding potential airline mergers, and continued capacity restrictions at Chicago O'Hare Airport, the hub for United Express Service from MBS. When Northwest Airlines originally filed for bankruptcy in September of 2005, the airline began a series of schedule adjustments and equipment downgrades. These changes impacted MBS and continued to impact MBS through 2007. The ongoing O'Hare capacity restrictions have essentially put a cap on the number of MBS-Chicago flights per day. Additionally, United Express cut their weekend schedule into MBS.

### REQUIRED FINANCIAL STATEMENTS

The financial statements of the Commission conform to accounting principles generally accepted in the United States of America. The Statements of Net Assets includes information on the Commission's assets and liabilities with the difference between the two reported as net assets. The Statements of Revenues, Expenses, and Changes in Net Assets identify the Commission's revenues and expenses for the fiscal years ended December 31, 2007 and 2006.

## MBS International Airport Commission

### Management's Discussion and Analysis (continued)

#### REVENUES

For fiscal year ending December 31, 2007, total operating revenues were \$2,953,397, which is approximately 4.0% higher than 2006.

In general, airfield revenues held steady in 2007 compared to 2006. Landing fee revenues decreased by approximately 6.2%. This was due to the cuts in service by Northwest, which included less operations and some downsizing of DC-9 aircraft to regional jet aircraft.

Rental revenue totaled \$897,317 in 2007, which was almost a 5.0% increase from 2006.

Total concession fees for 2007 were \$1,478,846, which was a 6.7% increase over 2006.

For fiscal year ending December 31, 2006, total operating revenues were \$2,840,062, which is approximately 3.8% higher than 2005.

In general, airfield revenues held steady in 2006 compared to 2005. Landing fee revenues decreased by approximately 7.1%. This was due to the cuts in service by Northwest, which included less operations and some downsizing of DC-9 aircraft to regional jet aircraft.

Rental revenue totaled \$854,315 in 2006, which was almost a 6% increase from 2005.

Total concession fees for 2006 were \$1,386,533. For the most part, car rental revenue and parking lot revenue held steady with 2005.

#### EXPENSES

Total operating expenses for 2007 increased by approximately 1.4% over 2006. Salaries, wages, and benefits increased by approximately 4.5% due mainly to an increase in benefit costs. Utility costs also increased by over 1.7% due to energy cost increases. Maintenance expense had an increased budget for runway de-icing chemicals. This chemical enhances the safety of the runway during snow/ice events. Although more productive than sand and urea, it is more expensive. Professional fees also increased as we hired a land acquisition consultant. These costs should be reimbursed by FAA grant dollars when the land is purchased.

Total operating expenses for 2006 ended at \$3,143,032, which was approximately 5% higher than 2005.

## MBS International Airport Commission

### Management's Discussion and Analysis (continued)

Salaries, wages and benefits increased by approximately 7% due mainly to an increase in benefit costs. Utility costs also increased by over 8% due to energy cost increases. Maintenance expense had an increased budget for runway de-icing chemicals. This chemical enhances the safety of the runway during snow/ice events. Although more productive than sand and urea, it is more expensive. Professional fees also increased as we hired a land acquisition consultant. These costs should be reimbursed by FAA grant dollars when the land is purchased.

#### THE AIRPORT AS A WHOLE

For the fiscal year ended December 31, 2007, current assets totaled \$19,669,724, which is 2.3% higher than the \$19,231,389 for 2006.

For the fiscal year ended December 31, 2006, current assets totaled \$19,231,389, which is 2.4% higher than the \$18,777,547 for 2005.

Below is a summary chart of assets, liabilities, and net assets.

	<b>December 31</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Assets</b>			
Cash and cash equivalents	\$21,364,740	\$20,411,954	\$19,437,504
Other assets	367,143	385,154	377,993
Capital assets	21,955,051	20,786,889	22,329,837
Total assets	<u>\$43,686,934</u>	<u>\$41,583,997</u>	<u>\$42,145,334</u>
<b>Liabilities</b>			
Current liabilities	\$ 247,633	\$ 225,424	\$ 285,012
Long-term liabilities	1,603,626	1,474,951	1,336,463
Total liabilities	<u>\$ 1,851,259</u>	<u>\$ 1,700,375</u>	<u>\$ 1,621,475</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	\$21,955,051	\$20,786,889	\$22,329,837
Restricted	2,062,159	1,565,719	1,037,949
Unrestricted	17,818,465	17,531,014	17,156,073
Total net assets	<u>\$41,835,675</u>	<u>\$39,883,622</u>	<u>\$40,523,859</u>

# MBS International Airport Commission

## Management's Discussion and Analysis (continued)

### THE AIRPORT AS A WHOLE (continued)

Below is a summary chart of capital assets.

		<b>December 31</b>	
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Capital assets</b>			
Land and land improvements	\$ 7,408,381	\$ 7,302,491	\$ 7,302,491
Buildings	15,262,414	15,163,272	15,163,272
Runways and taxiways	27,875,586	27,875,586	27,875,586
Equipment	5,908,997	5,751,564	5,877,846
Construction-in-progress	3,361,774	1,697,835	754,644
Total	59,817,152	57,790,748	56,973,839
Accumulated depreciation	37,862,101	37,003,859	34,644,002
Total capital assets	\$21,955,051	\$20,786,889	\$22,329,837

Below is a summary chart of revenues, expenses, and changes in net assets for the years ended December 31.

		<b>December 31</b>	
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Total operating revenues	\$ 2,953,397	\$ 2,840,062	\$ 2,735,154
Total operating expenses	3,186,057	3,143,032	2,993,746
Operating loss before depreciation and postretirement health benefit expense	(232,660)	(302,970)	(258,592)
Depreciation	2,256,534	2,508,386	1,984,813
Postretirement health benefit expense	95,679	108,731	92,796
Loss from operations	(2,584,873)	(2,920,087)	(2,336,201)
<b>Nonoperating revenues</b>			
Interest income	879,737	837,741	522,967
Passenger facility charges	632,365	533,221	539,925
Capital contributions in Federal Aid Projects	3,024,824	908,888	716,209
Decrease in net assets	1,952,053	(640,237)	(557,100)
Net assets at beginning of year	39,883,622	40,523,859	41,080,959
Net assets at end of year	\$41,835,675	\$39,883,622	\$40,523,859

### FUTURE OUTLOOK

Although 2007 held steady for most of the year, the events throughout the year, continued rising fuel costs, and the Northwest capacity reductions had a dramatic impact on MBS passenger traffic. Monitoring the ongoing situation at Northwest, as well as potential airline mergers, will continue to be a top priority for 2008.



# MBS International Airport Commission

## Statements of Net Assets

	<b>Year ended December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$19,302,581	\$18,846,235
Accounts receivable	179,401	282,372
Inventory	60,771	61,335
Construction-in-progress receivable	126,971	41,447
Total current assets	19,669,724	19,231,389
Capital assets:		
Land and land improvements	7,408,381	7,302,491
Buildings	15,262,414	15,163,272
Runways and taxiways	27,875,586	27,875,586
Equipment	5,908,997	5,751,564
Construction-in-progress	3,361,774	1,697,835
	59,817,152	57,790,748
Less accumulated depreciation	37,862,101	37,003,859
Total capital assets	21,955,051	20,786,889
Restricted cash	2,062,159	1,565,719
Total assets	\$43,686,934	\$41,583,997
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 83,018	\$ 74,568
Deferred revenue	51,388	50,131
Accrued expenses and other current liabilities	113,227	100,725
Total current liabilities	247,633	225,424
Long-term liabilities:		
Postretirement health benefits	1,603,626	1,474,951
Net assets:		
Invested in capital assets, net of related debt	21,955,051	20,786,889
Restricted	2,062,159	1,565,719
Unrestricted	17,818,465	17,531,014
Total net assets	41,835,675	39,883,622
Total liabilities and net assets	\$43,686,934	\$41,583,997

See accompanying notes.

# MBS International Airport Commission

## Statements of Revenues, Expenses, and Changes in Net Assets

	Year ended December 31	
	2007	2006
<b>Operating revenues</b>		
Landing fees	\$ 322,904	\$ 344,351
Concession fees	1,478,846	1,386,533
Rentals	897,317	854,315
Fuel flowage fees	142,472	141,994
Other	111,858	112,869
Total operating revenues	2,953,397	2,840,062
<b>Operating expenses</b>		
Salaries, wages, and benefits	1,925,833	1,843,345
Utilities	301,400	296,316
Maintenance and repairs	68,553	81,274
Insurance	116,088	126,873
Security police	275,328	282,929
Other	498,855	512,295
Total operating expenses	3,186,057	3,143,032
Operating loss before depreciation and postretirement health benefit expense	(232,660)	(302,970)
Depreciation	2,256,534	2,508,386
Postretirement health benefit expense	95,679	108,731
Income loss from operations	(2,584,873)	(2,920,087)
<b>Nonoperating revenues</b>		
Interest income	879,737	837,741
Passenger facility charges	632,365	533,221
Capital contributions in Federal Aid Projects	3,024,824	908,888
Increase (decrease) in net assets	1,952,053	(640,237)
Net assets at beginning of year	39,883,622	40,523,859
Net assets at end of year	\$ 41,835,675	\$ 39,883,622

See accompanying notes.

# MBS International Airport Commission

## Statements of Cash Flows

	<b>Year ended December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities</b>		
Cash received from providing services	\$ 3,050,265	\$ 2,873,585
Cash payments to suppliers	(2,006,225)	(2,105,029)
Cash payments to employees	(1,125,320)	(1,096,484)
Net cash used for operating activities	(81,280)	(327,928)
<b>Cash flows from capital and related financing activities</b>		
Passenger facility charges	632,365	533,221
Purchases of capital assets, excluding additions acquired through capital grants of \$3,024,824 in 2007 and \$908,888 in 2006 and non-cash activities	(485,396)	(98,634)
Proceeds from sale of capital assets	7,360	30,050
Net cash provided by capital and related financing activities	154,329	464,637
<b>Cash flows from investing activities</b>		
Interest received	879,737	837,741
Net increase in cash and cash equivalents	952,786	974,450
Cash and cash equivalents at beginning of year	20,411,954	19,437,504
Cash and cash equivalents at end of year	\$21,364,740	\$20,411,954
<b>Reconciliation of loss from operations before nonoperating revenues to net cash used for operating activities</b>		
Loss from operations	\$(2,584,873)	\$(2,920,087)
Adjustments to reconcile loss from operations to net cash provided by (used for) operating activities:		
Depreciation	2,256,534	2,508,386
Gain on sale of capital asset	(7,360)	(7,261)
Postretirement health benefits	128,675	138,488
Changes in operating assets and liabilities:		
Accounts receivable	102,971	16,768
Inventory	564	(4,634)
Accounts payable	8,450	(59,580)
Deferred revenue	1,257	1,227
Accrued expenses and other current liabilities	12,502	(1,235)
Net cash used for operating activities	\$ (81,280)	\$ (327,928)

See accompanying notes.

# MBS International Airport Commission

## Notes to Financial Statements

December 31, 2007

### **1. Organization**

The MBS International Airport Commission (Commission) was organized on August 18, 1941 by the cities of Midland, Bay City, and Saginaw to operate a municipal airport under Act 344, Public Acts of 1939, as amended. On July 21, 1961, all interests of the City of Bay City in the Airport were transferred to Bay County. On October 20, 1994, a resolution was enacted by the Commission to officially change the name of the Airport from Tri-City International Airport to MBS International Airport Commission (Airport).

The governing board of the Commission is appointed by the respective municipalities. Each municipality appoints three members to the Commission and each serves a term in accordance with the terms of the municipality. The Commission controls the employment of the Airport Manager, who is responsible for overseeing the day-to-day operations of the Airport.

### **2. Significant Accounting Policies**

#### **Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Commission follows GASB guidance as applicable to enterprise funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

#### **Statement of Cash Flows**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, restricted cash, interest and non-interest bearing deposits, and short-term investments with an original maturity of three months or less.

Cash and cash equivalents total \$21,364,740. Of this amount, approximately \$15,440,000 is in the Master Plan Projects Fund, \$619,000 is in the Emergency Capital Fund, \$2,417,000 is in other reserved funds, \$2,062,000 is in the Passenger Facility Charges Fund and \$827,000 is in other operating funds.

## MBS International Airport Commission

### Notes to Financial Statements (continued)

#### **2. Significant Accounting Policies (continued)**

##### **Accounts Receivable**

Accounts receivable are stated at the outstanding principal balance adjusted for any charge-offs. Management closely monitors outstanding balances and writes-off receivables when the receivable is deemed uncollectible. Management believes any realization losses on the outstanding balance at December 31, 2007 and 2006 would be immaterial; therefore, no allowance for uncollectible accounts is recorded.

##### **Inventory**

Inventory, which consists principally of various supplies, is valued at the lower of cost or market on the first-in, first-out method.

##### **Capital assets**

Capital assets are stated at cost and are depreciated over their estimated lives by the straight-line method.

##### **Capital Contributions**

Certain expenditures for Airport capital improvements are significantly funded through the Airport Improvement Program of the Federal Aviation Administration (FAA) with certain matching funds provided by the State of Michigan and the Commission, or from various state or federal grant programs. Capital funding provided under government grants is considered earned as the related allowable expenditures are incurred. Capital contributions arising from federal and state funding of Airport capital projects are classified as nonoperating revenue. Construction-in-progress at December 31, 2007 and 2006 included various projects funded primarily through federal and state contributions.

##### **Revenue Recognition**

Revenue, other than passenger facility charge revenue, is recognized on the accrual basis. Passenger facility charge revenue is recorded when received since the Airport has no control over the timing or amount of receipts.

##### **Retirement Plan**

The Commission has a defined benefit pension plan covering substantially all employees. The plan is administered under the State of Michigan Municipal Employees' Retirement System (MERS). The Commission's policy is to recognize pension costs based on actuarially determined required contributions.

MBS International Airport Commission  
Notes to Financial Statements (continued)

**2. Significant Accounting Policies (continued)**

**Postretirement Health Benefits**

The Commission provides certain health-care insurance benefits for retirees; substantially all employees may become eligible for these benefits. The Commission estimates these benefits by calculating the amounts that the Commission may pay to vested and retired employees taking into consideration current insurance costs, adjustments to insurance costs at age 65 and a life expectancy of 76 years old. The Commission has not had a recent actuarial valuation to determine what the required liability may be under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which will be applicable for the year ended December 31, 2009.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. A significant estimate at December 31, 2007 and 2006 relates to postretirement health benefits where \$1,603,626 at December 31, 2007 and \$1,474,951 at December 31, 2006 has been accrued. Although management believes the assumptions used and amounts recorded are reasonable, a change in circumstances could result in the actual results being different from the estimated accrual.

**3. Cash and Cash Equivalents**

Certain funds not required in day-to-day operations are invested in cash equivalent products. Cash balances totaling \$20,756,427 were on deposit (\$18,478,181 in interest-bearing accounts) in well capitalized, sound financial institutions which are covered by federal depository insurance of \$100,000 for each depositor. At December 31, 2007, \$20,456,427 of such deposits are uninsured and uncollateralized; therefore, subjecting the Airport to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Airport's deposits may not be returned. The Airport does not believe that this deposit concentration represents any undue custodial credit risk.

At December 31, 2007, the Commission had \$2,062,159 in restricted cash related to Passenger Facility Charge (PFC) revenue in excess of expenses. See Note 10 for further information.

# MBS International Airport Commission

## Notes to Financial Statements (continued)

### 4. Capital Assets

Capital asset activity consists of the following:

	<b>Balance January 1, 2007</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31, 2007</b>
Capital assets not being depreciated:				
Land	\$ 4,250,995			\$ 4,250,995
Capital assets being depreciated:				
Land improvements	3,051,496	\$ 105,890		3,157,386
Buildings	15,163,272	155,642	\$ 56,500	15,262,414
Runways and taxiways	27,875,586			27,875,586
Equipment	5,751,564	1,211,073	1,053,640	5,908,997
Construction-in-progress	1,697,835	3,283,746	1,619,807	3,361,774
Subtotal	53,539,753	4,756,351	2,729,947	55,566,157
Less accumulated depreciation for:				
Land improvements	\$ 2,335,860	119,448		2,455,308
Buildings	9,444,726	631,860	56,500	10,020,086
Runways and taxiways	21,132,659	1,016,434		22,149,093
Equipment	3,762,501	449,467	1,053,640	3,158,328
Construction-in-progress	328,113	214,264	463,091	79,286
Subtotal	37,003,859	2,431,473	1,573,231	37,862,101
Net capital assets being depreciated	16,535,894	2,324,878	1,156,716	17,704,056
Total capital assets, net	\$20,786,889	\$2,324,878	\$1,156,716	\$21,955,051

# MBS International Airport Commission

## Notes to Financial Statements (continued)

### 4. Capital Assets (continued)

Capital asset activity consists of the following:

	Balance January 1, 2006	Increases	Decreases	Balance December 31, 2006
Capital assets not being depreciated:				
Land	\$ 4,250,995			\$ 4,250,995
Capital assets being depreciated:				
Land improvements	3,051,496			3,051,496
Buildings	15,163,272			15,163,272
Runways and taxiways	27,875,586			27,875,586
Equipment	5,877,846	\$ 22,247	\$ 148,529	5,751,564
Construction-in-progress	754,644	965,980	22,789	1,697,835
Subtotal	52,722,844	988,227	171,318	53,539,753
Less accumulated depreciation for:				
Land improvements	2,219,207	116,653		\$ 2,335,860
Buildings	8,819,797	624,929		9,444,726
Runways and taxiways	19,983,735	1,148,924		21,132,659
Equipment	3,602,686	308,344	148,529	3,762,501
Construction-in-progress	18,577	309,536		328,113
Subtotal	34,644,002	2,508,386	148,529	37,003,859
Net capital assets being depreciated	18,078,842	(1,520,159)	22,789	16,535,894
Total capital assets, net	\$22,329,837	\$ (1,520,159)	\$ 22,789	\$20,786,889

### 5. Operating Revenues

The operating revenues of the Commission consist primarily of landing fees, rentals, and concession fees. Operating revenue, by customer, for the year ended December 31, 2007 and 2006 is approximately as follows:

	2007	2006
Northwest Airlines	\$ 496,000	\$ 522,000
SkyWest Airlines	235,000	235,000
Avflight	162,000	184,000
Aerodynamics	119,000	111,000
Pinnacle	53,000	46,000
Mesa	33,000	38,000
APCOA, Inc. (parking lot concessionaire)	844,000	795,000
Car rental companies	608,000	562,000
All other customers	403,000	347,000
	<u>\$2,953,000</u>	<u>\$2,840,000</u>

Agreements for such fees are generally renegotiable after periods of one to ten years.



## MBS International Airport Commission

### Notes to Financial Statements (continued)

#### 5. Operating Revenues (continued)

Revenue from rental of terminal facilities to commercial airlines was approximately \$542,000 for the year ended December 31, 2007 and \$526,000 for the year ended December 31, 2006. Landing fee revenue from these airlines was approximately \$322,000 in 2007 and \$344,000 in 2006 and is covered under agreements which expire September 30, 2008.

Minimum future revenue from non-cancelable rental and concession agreements in effect at December 31, 2007 is as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 923,000
2009	457,000
2010	313,000
2011	180,000
2012	41,000
Thereafter	101,000
	<u>\$2,015,000</u>

#### 6. Retirement Benefits

*Plan Description* – The Commission participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer, state-wide, public employee pension plan created under Act 135 of the Public Acts of 1945. The plan operates under Public Act 220 of 1996 and the MERS Plan Document as revised. The Commission participates in the defined benefit program of the MERS plan. MERS issues an annual financial report, which includes financial statements and required supplementary information. The report may be obtained at Municipal Employees' Retirement System of Michigan, 477 N. Canal Rd., Lansing, Michigan 48917.

The plan covers all full-time employees. Participating employees consisted of 26 active participants, 15 retirees and beneficiaries, and 2 vested former employees as of December 31, 2006, the date of the most recent actuarial valuation. Additional information concerning the retirement plan as of December 31, 2007 follows:

**Normal Retirement:** In general, age 60 with 10 years or more of credited service. Non-union participants also have the option of age 55 with 25 years or more of credited service. The benefit is two and a quarter percent of the member's three-year final average compensation for each year of service. Union participants have the option of age 55 with 25 years or more of credited service. The benefit is two percent of the member's five year final average compensation for each year of service. Normal retirement for the Airport Manager is 25 years of service and out.

# MBS International Airport Commission

## Notes to Financial Statements (continued)

### 6. Retirement Benefits (continued)

*Funding Policy* – The Commission establishes benefit provisions. Subject to union contracts, the Commission has the authority to amend the benefit provisions within the options allowed by MERS. All employee contributions are refundable if the employee elects to terminate vesting rights or is not vested at the date of termination of employment. Effective in 1989, the plan no longer requires employee contributions. The Commission's funding policy provides for monthly (quarterly in 1997 and prior years) contributions to MERS. The contributions are actuarially determined, expressed as percentages of annual covered payroll, and designed to accumulate sufficient assets to pay benefits when due. The MERS Retirement Board establishes the funding methods.

*Annual Pension Cost* – For 2007, the Commission's actual pension contributions of \$230,051 exceeded the annual pension cost of \$215,568, thereby decreasing the net pension obligation by \$14,483. The Commission did not have a net pension obligation at transition, determined in accordance with GASB Statement No. 27, as their actual contributions made equaled the actuarially determined required contributions for each year during the "look-back period."

The actuarial valuation is performed as of the last day of each fiscal year for the plan and determines contribution requirements for the second following fiscal year. The 2007 contributions were based on the December 31, 2005 valuation. The normal cost and actuarial accrued liability are determined using the entry age normal cost method. Unfunded actuarial accrued liabilities are being amortized as a percentage of payroll over a period of 29 years. Significant actuarial assumptions used in determining the pension benefit obligation included (i) a rate of return on the investment of present and future assets of 8.0% per year compounded annually, (ii) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (iii) additional projected salary increases ranging from 0.0% to 8.4% per year, depending on age, attributable to seniority/merit, and (iv) the assumption that benefits will increase 2.5% annually after retirement. Significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the pension benefit obligation. The actuarial value of assets is determined on the basis of a valuation method that assumes the funds earn the expected rate of return (8.0%) and includes an adjustment to reflect market value.

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)	Cumulative NPO
12/31/07	\$215,568	106.7%	\$(14,483)	\$(66,821)
12/31/06	169,824	134.5	(58,606)	(52,338)
12/31/05	137,328	115.8	(21,643)	6,268

*Health Insurance* – The Commission provides continued health insurance to eligible retirees and their spouses in the form of a Staff Plan and a Union Plan. During 2002, the Commission re-evaluated the liability by projecting the estimated health-care benefits for those employees that have vested in the plan and those already retired. Management intends to re-evaluate the calculation annually and make the appropriate adjustment. Postretirement health benefit expense was \$95,679 for 2007 and \$108,731 for 2006.

# MBS International Airport Commission

## Notes to Financial Statements (continued)

### 7. Required Supplemental Information on Retirement Plan

The following table shows the required three-year historical trend information relating to the funding progress of the Commission's retirement plan.

Actuarial Valuation Date December 31	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded (Overfunded) AAL (UAAL) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Covered Payroll	UAAL as a Percent of Covered Payroll (3) / (5)
2004	\$4,865,622	\$6,030,522	\$1,164,900	81	\$1,037,872	112%
2005	5,031,747	6,627,188	1,595,441	76	1,089,974	146
2006	5,353,853	7,036,322	1,682,469	76	1,052,213	160

### 8. Deferred Compensation Plan

The Commission established a deferred compensation plan to provide retirement income and other deferred benefits to its employees in accordance with the provisions of Section 457 of the Internal Revenue Code of 1986, as amended. Contributions to the plan totaled \$71,646 in 2007 and \$64,785 in 2006.

### 9. Construction-in-Progress Commitments

The Commission is participating in several capital projects whereby the Federal and State governments have agreed to pay for a portion of the project with the remainder to be paid by the Commission. As of December 31, 2007, the Commission has paid more than its portion of the outstanding commitments to date on these projects and has recorded a receivable for this amount.

### 10. Passenger Facility Charges

Effective June 28, 1991, Federal Aviation Regulation 158 established a Passenger Facility Program. Under this regulation, airports may be authorized to impose an airport Passenger Facility Charge (PFC) of \$1, \$2, or \$3 per enplaned passenger at a commercial service airport it controls. The proceeds from such PFCs are to be used to finance eligible airport-related projects that preserve or enhance safety, capacity, or security of the national air transportation system, reduce noise from an airport that is part of such system, or furnish opportunities for enhanced competition between or among air carriers.

The rule sets forth procedures for public agency applications for authority to impose PFCs for Federal Aviation Administration (FAA) processing of such applications, for collection, handling, and remittance of PFCs by air carriers, for recordkeeping and auditing by air carriers and public agencies, for terminating PFC authority, and for reducing Federal grant funds apportioned to large and medium hub airports imposing a PFC.

## MBS International Airport Commission

### Notes to Financial Statements (continued)

#### 10. Passenger Facility Charges (continued)

The FAA approved MBS International Airport's first Passenger Facility Charge application in the amount of \$1,400,000 (amended to \$874,682) to reimburse the local share of Airport Improvement Projects (AIP) which occurred between 1991 and 1997. This application was completed in 1999. The second PFC application in the amount of \$812,050 (amended to \$438,614) was completed in 2002. The third PFC application in the amount of \$4,234,047 (amended to \$2,860,985) was completed in 2006. The fourth application in the amount of \$1,999,052, and the fifth application in the amount of \$1,378,794 to reimburse the local share of subsequent Airport Improvement Projects were also approved by the FAA. These applications were approved for the collection of \$3 per enplaned passenger, of which the airlines retain \$.08 on each \$3 charge as a collection fee and forward the remaining \$2.92 to the Airport. During 2004, the collection fee the airlines can retain increased to \$.11, with the remaining \$2.89 being forwarded to the Airport. During 2007, the collection per enplaned passenger increased to \$4.50, of which the airlines retain \$.11 and forwards the remaining \$4.39 to the Airport. The Airport received \$632,365 (including \$82,386 of interest income on excess PFC revenue) in PFC revenue in 2007 and \$533,221 (including \$59,165 of interest income on excess PFC revenue) in 2006. The Airport has received \$2,062,159 as of December 31, 2007 and \$1,565,719 as of December 31, 2006 in PFC revenues in excess of eligible expenditures. This amount has been classified as restricted cash and net assets and maintained in a separate cash account.



**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

Report of Independent Auditors  
on Other Financial Information

Board of Commissioners  
MBS International Airport Commission

Our report on our audits of the financial statements of MBS International Airport Commission appears on page one. Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying details of operating revenues and details of operating expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Andrews Hooper & Pavlik P.L.C.*

Saginaw, Michigan  
March 18, 2008

# MBS International Airport Commission

## Details of Operating Revenues

	<b>Year ended December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Airfield area</b>		
Landing fees	\$ 322,904	\$ 344,351
Fuel flowage fees	142,472	141,994
Farm land rental	39,965	39,966
Total airfield area	<u>505,341</u>	<u>526,311</u>
<b>Hangar area</b>		
Fixed base operators' concession fees	1,808	3,199
Ground rental:		
Hangar	57,561	55,885
Non-commercial	64,430	49,128
Commercial	52,366	47,847
Total ground rental	<u>174,357</u>	<u>152,860</u>
Total hangar area	<u>176,165</u>	<u>156,059</u>
<b>Terminal area</b>		
Rentals:		
Airline	542,272	526,479
Car rental companies	41,630	40,412
Other	79,460	74,965
Total rentals	<u>663,362</u>	<u>641,856</u>
Concession fees:		
Car rental companies	541,574	497,416
Parking lot	843,126	794,787
Restaurant, gift shop, and bar	46,078	45,000
Advertising	43,560	43,260
Limousine service	2,700	2,871
Total concession fees	<u>1,477,038</u>	<u>1,383,334</u>
Gain on sale of capital assets	7,360	7,261
Other revenue	104,498	105,608
Total terminal area	<u>2,252,258</u>	<u>2,138,059</u>
<b>Administration building</b>		
Office space rental	19,633	19,633
	<u>\$2,953,397</u>	<u>\$2,840,062</u>

# MBS International Airport Commission

## Details of Operating Expenses

	<b>Year ended December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Salaries, wages, and benefits</b>		
Maintenance	\$ 445,422	\$ 441,670
Crash, fire, and rescue	405,185	398,237
Administration	263,586	255,551
Payroll taxes and fringe benefits	811,640	747,887
Total salaries, wages, and benefits	<u>1,925,833</u>	<u>1,843,345</u>
<b>Other operating expenses</b>		
Utilities	301,400	296,316
Maintenance and repairs	68,553	81,274
Insurance	116,088	126,873
Security police	275,328	282,929
Professional fees	65,169	69,756
Operating supplies	119,722	119,106
Custodial supplies	10,063	10,489
Equipment rental	5,097	4,545
Gasoline and oil	70,687	44,603
Travel	24,654	23,451
Telephone	14,699	15,253
Public relations	162,353	195,484
Shop tools and equipment	4,041	4,225
Dues and subscriptions	8,435	10,551
Uniforms	4,723	7,965
Landscaping	2,816	2,203
Janitorial services	4,760	4,664
Other expenses	1,636	-
Total other operating expenses	<u>1,260,224</u>	<u>1,299,687</u>
	<u><u>\$3,186,057</u></u>	<u><u>\$3,143,032</u></u>